

FEDERAL ENERGY REGULATORY COMMISSION
WASHINGTON, D.C. 20426

August 3, 2005

In Reply Refer To:
Midwest Independent Transmission System
Operator, Inc.
Docket No. ER05-1124-000

Midwest Independent Transmission
System Operator, Inc.
Attn: Lori A. Spence, Esq.
Associate General Counsel
701 City Center Drive
Carmel, IN 46032

Dear Ms. Spence:

1. On June 17, 2005, the Midwest Independent Transmission System Operator, Inc. (Midwest ISO) filed a proposal to modify Attachment L (credit policy) to its Transmission and Energy Markets Tariff (TEMT) to value the security provided by revenue bond obligations when determining the amount of unsecured credit to extend to a market participant. The Midwest ISO proposed using the outstanding balance of the revenue bonds as a proxy for equity, then adding this amount to the tangible net worth of the qualified agent, and then multiplying the new total by the appropriate value from Table 1 based on the composite credit score of the market participant. The Midwest ISO requested an effective date of August 16, 2005.
2. The proposed revisions ensure that public power entities with outstanding revenue bonds receive appropriate unsecured credit, but the Midwest ISO does not diminish its credit position. Additional unsecured credit effectively reduces the market participant's cost of providing financial assurances in the event the prior amount of unsecured credit extended is insufficient to cover the participant's market activity. The Midwest ISO retains its credit position because its charges are classified as operating expenses that are paid before the bond holders under the terms of the revenue bonds.

3. Notice of the filing was published in the *Federal Register*, 70 Fed. Reg. 39,264 (2005), with interventions, protests and comments due on or before July 8, 2005. Consumers Energy Company filed a timely motion to intervene, and the Midwest Transmission Dependent Utilities (Midwest TDUs)¹ filed a timely motion to intervene and comments in support of the changes to Attachment L. On July 25, 2005, the Midwest ISO filed an answer to the Midwest TDUs' comments. Pursuant to Rule 214 of the Commission's Rules of Practices and Procedure, 18 C.F.R. § 385.214 (2005), the timely, unopposed motions to intervene serve to make the entities that filed them parties to this proceeding. Rule 213(a)(2) of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.213(a)(2) (2005), prohibits an answer to a protest unless otherwise ordered by the decisional authority. We will accept the Midwest ISO's answer because it has provided information that assisted us in our decision-making process.

4. The Midwest TDUs support the changes to Attachment L requested by the Midwest ISO, but note one edit needed for consistency in the new tariff provisions. The Midwest TDUs state that in consultation with the Midwest ISO it was determined that section (6)(a)(iii),² which states the representations that the power supply agent's management is required to make, should have the words "for transmission and energy services" added to it so that it is consistent with section (6)(b)(v). In its answer, the Midwest ISO agrees with the change sought by the Midwest TDUs because it will make the tariff more consistent.

5. The Midwest TDUs also note that some public power entities have few or no outstanding revenue bonds, and, hence, may not benefit from these tariff revisions. The Midwest TDUs encourage the Midwest ISO to remain receptive to future credit revisions, if needed, to accommodate public power participants.

6. We accept the proposed modifications, with the additional modification ordered below. We agree with the Midwest TDUs and the Midwest ISO that a revision is needed in section (6)(a)(iii) to add the phrase "for transmission and energy services," consistent with section (6)(b)(v). Therefore, we direct the Midwest ISO to revise section (6)(a)(iii), to be consistent with section (6)(b)(v), through a compliance

¹ The Midwest TDUs consist of: Great Lakes Utilities, Indiana Municipal Power Agency, Lincoln Electric System, Madison Gas and Electric Company, Midwest Municipal Transmission Group, Missouri Joint Municipal Electric Utility Commission, Missouri River Energy Services, Southern Minnesota Municipal Power Agency, and Wisconsin Public Power Incorporated.

² TEMT, Attachment L, Second Revised Sheet No. 1212.

filing to be made within 30 days of the date of this order. In addition, we encourage the Midwest ISO to remain receptive to future revisions to its credit policy that accommodate any market participant that is otherwise creditworthy, but unable to transact due to insufficient unsecured credit.

By direction of the Commission.

Linda Mitry,
Deputy Secretary.